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ABSTRACT

This booklet provides a history of teacher retirement benefits in the state of Texas from 1937-97, offering highlights of important state legislation related to retirement and its benefits. In 1936, Texas citizens approved an amendment to the Texas constitution establishing a retirement system for public school employees. Enacting legislation passed by the 45th Texas legislature put the Teacher Retirement System of Texas in business in 1937. The legislation limited membership to persons employed in professional and business administration, supervision, and instruction. Over the years, membership has been extended and retirement benefits have been increased. Various changes in retirement law have provided major benefit improvements to members. Legislation has also altered how benefits are paid, how much the state contributes, member contributions, survivor payments, disability payments, and annuity increases. (SM)

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HISTORY OF BENEFIT IMPROVEMENTS

TEACHER RETIREMENT SYSTEM OF TEXAS

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Citizens of Texas in 1936 approved an amendment to the Texas constitution (Section 48a of Article III) establishing a retirement system for public school employees. The amendment provided: (1) state contributions to equal the amount paid by the member; (2) member contributions to be 5% of compensation received but not to exceed $180 per year; (3) no person to be eligible for an annuity who had taught fewer than 20 years in this state; and (4) funds to be invested in government and municipal bonds.

1937 Enacting legislation passed by the 45th Texas Legislature put TRS in business in September. The legislation limited membership to persons employed in professional and business administration, supervision, and instruction. Credit was given to persons teaching prior to 1937 without requiring contributions. The program further provided for **service and disability retirement with 20 or more years of service** or a return of deposits if employment terminated before qualifying for a retirement annuity. Operations of the retirement system were to be funded by an annual membership fee. At the end of the first year there were 38,052 members, assets totaled $2.25 million, and the yield on investments was 2.26%.

1941 The first group of teachers (535) retired and the average monthly benefit was $40. The **retirement formula** was based on the member's contributions, an equal amount from state contributions, and 1% of the member's average prior service compensation not to exceed 36 years of prior service and a $3,000 salary.

1947 Legislation increased **prior service annuities** for active and retired members to 1.5% of the average prior service

compensation and provided for vesting of benefits with 25 years of service.

1949 Membership was extended to **auxiliary employees** in school districts and the retirement formula was changed for the second time to provide 2% of the average prior service compensation in computing benefits. The increase also applied to retired members.

1951 Further **increases in retirement benefits** for active and retired members were passed by the 52nd Legislature. The prior service annuity was raised to 3% of a member's average prior service compensation. Other law revisions provided for (1) payment of deposits for previous service rendered by employees who **waived** their right to membership; and (2) the **reemployment** of retired teachers in public schools provided that their annuities were suspended.

1953 Active and retired members received another annuity increase when the retirement formula was amended to provide for **additional matching money** from the State Membership Fund. A new law also permitted **repayment of withdrawn** accounts.

1954 A constitutional amendment to permit members to **transfer service** between the Teacher Retirement System and the Employees Retirement System was approved by voters.

1955 The first major revision in the retirement law was enacted by the 54th Legislature contingent upon passage of a constitutional amendment to be voted on in November 1956. Provisions of the new law included (1) an entirely new method of **calculating a retirement annuity;** (2) **increasing the rate of contributions** to 6% of salary but not to exceed $504 per year based on a maximum salary of $8,400; (3) **death and survivor benefit coverage** for all members; (4) guaran-

teed **minimum retirement annuities** for active and retired members; (5) **disability benefits** for members with fewer than 20 years of service; (6) **broader investment authority** to permit investing of funds in corporate bonds and common stocks; (7) **lower retirement age** requirements; (8) **expanded retirement options;** and (9) the purchase of retirement credit for **out-of-state service.** The new retirement formula provided for 1% for each year of prior service and 1.5% for each year of membership service multiplied by a member's five-year average compensation earned immediately preceding September 1, 1955. Enacting legislation was also passed to put into effect a constitutional amendment passed by the voters in 1954, relating to **joint service** by members of TRS and Employees Retirement System.

1956 The **constitutional amendment** permitting provisions of the 1955 law to take effect was overwhelmingly approved by voters in November by one of the largest margins in the state's history, 1,350,372 to 166,788.

1959 The legislature passed laws permitting (1) **retired members to substitute** in a public school up to 60 days without affecting annuity payments; (2) persons who retired on a **disability retirement to return to active membership** should they recover from their disability; and (3) any person who was a member of the system prior to performing active **military duty** to make deposits and receive retirement credit for the service.

1961 Law revisions provided for (1) **employment of retired teachers** in public schools for up to 80 days on a substitute basis or on a one-third time basis not to exceed 6 semester hours; and (2) persons who served in **military duty during World War I** to receive prior service credit without making deposits.

1963 Significant retirement law changes were adopted by the 58th Legislature. A **terminal average plan** for calculating retirement benefits was adopted and the **new formula** used 1% for each year of prior service and 1.5% for each year of membership service multiplied by a member's **best 10-year average salary.** The legislature also (1) established **new guaranteed minimums** for active and retired members with 25 or more years of service; (2) exempted death and survivor benefits from **state inheritance taxes;** (3) permitted **auxiliary employees to substitute** in a public school up to 80 days in a school year; and (4) extended **survivor benefits** to a certain group of beneficiaries not previously covered.

1965 A very important constitutional amendment relating to **investment of funds** was approved by voters in November 1965. The amendment enabled the system to sell most of its U.S. Treasury bonds and replace them with higher yielding U.S. Agency obligations and corporate bonds.

1967 The 60th Texas Legislature improved the retirement program by (1) **increasing annuities** for retired teachers by $1.50 per month for each year they had been retired; (2) **lowering the vesting provision** to 10 years; (3) allowing persons who served in active **military duty** during World War II to purchase up to five years of retirement credit even though they were not members of the system when they entered the military; (4) expanding the **employment after retirement** provisions to allow for one-third time employment in public schools by any retired member; and (5) further expanding **survivor benefit coverage** to certain beneficiaries not previously covered.

1968 A constitutional amendment to **remove the $8,400 ceiling** on which contributions could be based was adopted by voters.

1969 Enacting legislation established a **new salary ceiling at $25,000** and **increased the retirement formula** to 1.65% for each year of prior and membership service effective March 31, 1969. Legislation also (1) gave retired members a 10% increase; (2) **increased minimum** retirements for auxiliary members; and (3) **increased survivor benefits** for auxiliary members earning more than $3,800 per year.

1971 The 62nd Texas Legislature amended teacher retirement law to (1) change the formula for calculating a retirement annuity by using the **best five-year average salary** and increasing the percentage credit for each year of service to 1.75% effective May 31, 1971; (2) increase **minimum service retirement benefits** for auxiliary employees to $60 per month at age 65 with 10 through 19 years of service, or $95 per month at age 60 with 20 or more years of service; (3) **increase benefits** for present annuitants (except those receiving survivor benefits) by an amount equal to 10% of their present annuities; and to (4) establish a **minimum retirement benefit** for "teacher" members (active and retired) amounting to $6.50 per month for each year of service.

1973 Benefit adjustments contained in SB 352, and passed by the 63rd Texas Legislature, included (1) guaranteeing that a member's **net deposits, plus interest,** will be paid the beneficiary if the retired member dies before recovering all funds under the standard annuity or options 1 or 2, and (2) permitting retired members who returned to teaching for five consecutive years to repay everything they have received from TRS plus interest, make deposits for this service, and **reretire under the present formula.** Legislation also **expanded the board** of trustees to nine members by the addition of a retired member and a second appointee of the State Board of Education, and enlarged provisions

for **repaying a withdrawn account** by allowing a member to purchase withdrawn service if service has been rendered for seven years during any 10-year period.

1975 **Benefit increases** for retired members effective February 1, 1975, were granted by the legislature as follows: 18% for those who retired before March 31, 1969; 12% for those who retired on or after March 31, 1969, and before May 31, 1971; and 5% for those who retired on or after May 31, 1971, and before September 1, 1973. Voters approved a Constitutional Amendment on April 22, 1975, **revising and consolidating provisions** for state and local retirement systems; allowing the legislature to set the state contribution rate between six and 10%; and permitting emergency appropriations for the system. Interest on member accounts was increased to **5% on the average yearly balance.** Auxiliaries were granted a **minimum standard service retirement benefit** of $5 per month for each year of service with a minimum of $60 per month. Definition of "school year" was expanded to allow certain members to use their **"contract year"** in determining their final salary at retirement. Relationship requirements on death in service benefits were removed. Requirement for purchase of **out-of-state service** was changed to one year of out-of-state service for each year of TRS membership and auxiliaries were allowed to purchase out-of-state credit. Availability of military credit was extended to **veterans of Korean and Vietnam Wars.** Requirement for **repaying a withdrawn account** was changed to two years of continuous TRS service or a period equal to the length of absence if the absence was for less than two years. Members receiving **disability retirement benefits** were made eligible for full death benefit coverage. Retired members were allowed to **substitute 100 days** on a day-to-day basis for an absent employee or 15 days in a vacant position during a school year. A **reinstatement fee** of 5% per year of the amount withdrawn was added to the cost of

paying back **withdrawn accounts.** A 5% per year fee, calculated from the date the member becomes eligible for the purchase, was added to the cost of obtaining **out-of-state, military,** and **delinquent service.**

1977 Changes in retirement law by the 65th Legislature provided major benefit improvements by (1) increasing the **standard annuity formula factor to 2%** effective May 31, 1977; (2) granting **increases for retired members** based on a graduated scale ranging from approximately 4% for 1977 retirees to approximately 15% for 1941 retirees; (3) establishing **one-class membership** with survivor benefits and minimum service retirement benefits for auxiliaries brought up to the level for teachers; (4) **improving early age retirement tables** and allowing retirement at 55 with a minimum of 10 years of service; (5) allowing **purchase of military service** by certain volunteers and limiting to five years the maximum purchase of military credit; (6) increasing to $6.50 per month per year of service the **minimum disability benefits** for members with 10 or more years service; (7) increasing the number of days a **retired member may substitute** on a day-to-day basis for an absent employee to 120 school days in a single school year; and (8) allowing purchase of up to two years of credit for **developmental leave.** Member **contributions were increased** to 6.65% of the first $25,000 of annual compensation and state contributions were increased to 7.5% of payroll.

1979 The **$25,000 salary ceiling** on compensation subject to TRS deduction and as a factor in the retirement benefit formula was removed by the 66th Legislature. Effective September 1, 1980, lump sum **survivor benefit payment** was increased to $1,500 and monthly payments from $75 to $100 and from $150 to $200. **Remarriage** after September 1, 1980, was no longer cause for termination of survivor benefits. The 5% fee on **delinquent deposits** assessed before 1975-76 was removed

and refund of fees already collected prior to 1975-76 was authorized. One year was allowed for **transfer of credit** between TRS and Employees Retirement System without a waiting period and after September 1, 1980, transfer of credit between the systems would end. Participants in the **Optional Retirement Program** at colleges and universities were given until September 1, 1980, to make **a one-time election** to return to TRS. Effective September 1979, **cost-of-living increases** for retired members and certain beneficiaries of deceased members were authorized as follows: 13% increase for those retired before March 31, 1969; 6% increase for those retired on or after March 31, 1969, but before September 1, 1973; $75 per month **survivor benefits** increased to $100; and $150 per month survivor benefits increased to $200. **Employment after retirement** in Texas public schools without loss of benefits was increased to one-half time and the 60-year age requirement was removed. The **state contribution rate** was increased to 8.5% of payroll.

1981 The 67th Legislature decreased the best five-year average annual salary to the **best three-year average annual salary** used for retirement benefit calculation. **Annual compensation** was defined as salary and wages paid or payable to a member during a school year, excluding expenses, allowances, fringe benefits, and payments for unused vacation or sick leave, or other payments not includable in annual compensation which have been converted to salary in the final years before retirement. A **transition period** was allowed during which a member could retire between September 1, 1981, and September 1, 1982, on the better of the three-year average or a five-year average.

Fees were increased, effective September 1, 1982, from 5% non-compounded rate to 8% compounded annually for establishing out-of-state service and military duty credit and to 6% compounded annually for reinstating a with-

drawn account or membership terminated by retirement. A grace period of **45 days following retirement** was given retirees to revoke their retirement, return benefits received, and return to active service. Effective September 1, 1982, the **consecutive service required** after a retired member returned to active service before reretirement would be allowed was reduced from five to two years.

TRS was allowed to adopt **nominee name** for investment purposes to speed the clearing of securities, reduce cost of transactions, and open new avenues of investment for the system. **Direct deposit** of TRS annuity checks by electronic transfer of funds was made available. **TRS law was recodified** under Title 110B of Revised Civil Statutes.

Increases of 5.1% beginning in February 1981 were granted for those receiving benefits as a result of retirement or death before August 31, 1979, and **additional increases** beginning with the September 1981 annuity checks for the following: 21% if benefit began before September 1, 1963; 16% if benefit began on or after September 1, 1963, but before May 31, 1971; 14% if benefit began on or after May 31, 1971, but before May 31, 1977; 2% if benefit began on or after May 31, 1977, but before August 31, 1979; and 7% if benefit began on August 31, 1979, and **retiree did not benefit** from $25,000 salary ceiling removal. Increases would not apply to persons with fewer than 10 years credit receiving minimum disability benefits, those receiving $100 or $200 monthly survivor benefits, and those retired on or after September 1979. If it would result in an **annuity greater** than that provided by the percentage increases shown above, an annuitant would receive an annuity calculated under the benefit formula of the law in effect August 31, 1979, **without any increases** which had been provided since the benefit began.

1983 The 68th Legislature, Regular Session, passed a two-year **reduction in**

contribution rates, from 8.5% to 7.1% for the state and from 6.65% to 6% for the member, effective September 1, 1983, and ending August 31, 1985. ORP rates remained at 8.5% and 6.65%. The **annual membership** fee was increased from $5 to $10 beginning September 1, 1983. Future **direct gubernatorial appointees** to the board of trustees could not be a member or an annuitant of the system, and two of the three must have demonstrated financial expertise, worked in private business or industry, and have broad investment experience, preferably in investment of pension funds.

1984 A special session of the 68th Legislature granted **benefit increases** beginning August 1984, based on the date of retirement or death of a member, as follows: 9.5% on or before August 31, 1970; 5% after August 31, 1970, but on or before August 31, 1975; 4% after August 31, 1975, but on or before August 31, 1978; and 3% after August 31, 1978, but on or before August 31, 1982.

The increases did not apply to the $100 or $200 survivor benefit payments, disability retirement benefits for persons with fewer than 10 years of creditable service, or annuities calculated on an average compensation factor that exceeded $25,000. The increases were **funded by TRS** as a result of greater than expected earnings on investments.

Beginning with the 1985-86 school year, **school districts would pay** the state's TRS contribution on compensation in excess of the state minimum salary unless the district qualified for an exemption based on its high tax rate. Amounts due TRS are **held in trust** by the district for the retirement system. Provision was made for **payment of interest** compounded monthly, based on the TRS assumed interest rate plus 2%, on late payments made by school districts after the 10th of the month they are due.

1985 Establishment of the **Texas Public School Retired Employees Group Insurance Program** was authorized by the 69th Legislature. TRS was named to administer a program providing a basic level of **health insurance** coverage at no cost to TRS retirees not otherwise covered by any other state funded group health insurance program beginning September 1, 1986. In addition to the **basic coverage** for retirees, the basic and optional coverage for spouses, surviving spouses, and dependents and optional coverage for retirees could be made available at additional cost. Surviving spouses would be eligible to enroll in the program by paying the required premiums. The insurance program is **funded by contributions** of .25% of annual compensation paid by TRS members not covered by any other state funded group health insurance program beginning September 1, 1985, and state contributions of .35% beginning September 1, 1986; .40% in 1987-88; .45% in 1988-89; and .50% in 1989-90 and 1990-91. A nine-member **advisory committee** appointed by the board of trustees was authorized to hold public hearings on benefits and recommend to the board minimum standards, plan features, and desirable changes in rules and legislation affecting the program. **Contribution rates were set** at 6.4% for members and 8% for the state (ORP rates remained at 6.65% and 8.5%) beginning September 1, 1985. **Lump sum payment** to the beneficiary upon the death of a retired member and as part of the survivor benefit plan which may be selected by the beneficiary upon the death of an active member was increased from $1,500 to $2,500 for deaths that occur on or after September 1, 1985.

Employment in Texas public education without loss of benefits was **allowed after service retirement** as a substitute for no more than 120 days during a school year, or on no more

than a one-half time basis during any month, or on as much as a **full-time basis** for five consecutive months between September and June if certain conditions are met. A disability retiree was allowed employment in a Texas public school **only as a substitute** for no more than 90 days in a school year. One month (two months if May 31 retirement with work in June) **absence from service** was required before employment in Texas public schools could begin without revocation of retirement. TRS members were allowed the advantage of a federal income tax break without losing TRS salary credit by participating in certain qualifying **salary reduction plans.** Institutions of higher education were required to **reimburse the state** for TRS and ORP state contributions based on salary paid from noneducational and general funds. Interest on **delinquent amounts** owed by school districts after the 10th of the month in which they are due was set at 2% above the assumed rate of return on TRS investments.

In a special session in 1986, a bill was passed to delay payment of state contributions **for five months** to both TRS and the Employees Retirement System during the state's financial shortfall of 1986-87. However, only the October payment was deferred. The delay did not affect benefit payments or actuarial soundness.

1987 The 70th Legislature approved **record increases** for retiree and beneficiary annuities beginning with the August 1987 checks. The increases, based on the date of retirement or death, were: 20%, prior to September 1, 1966; 15%, on or after September 1, 1966, but before September 1, 1972; 10%, on or after September 1, 1972, but before September 1, 1980; and 5%, on or after September 1, 1980, but before September 1, 1984. The TRS state contribution rate was reduced from 8% to 7.2% **for two years** beginning September 1, 1987, resulting in a

reduction of approximately $144 million in state appropriations to TRS over that biennium. Larger-than-expected earnings from TRS investments made possible the benefit increases and reduction of state contributions. The lump sum **death benefit payment** to beneficiaries of active members was increased to twice the member's salary or $60,000, whichever is less, for deaths occurring on or after September 1, 1987. The Public School Retired Employees Group Insurance Program was enlarged to allow coverage of surviving spouses and dependent children of **active public school members** with 10 or more years of service who died on or after September 1, 1986. Penalties against fraud and late payment of premiums were strengthened. Provision was made **for tax sheltering** of employee contributions to TRS (effective January 1, 1988) through an employer pickup plan which reduces the employee's salary for tax purposes without changing the contract salary amount, thus increasing take-home pay and **deferring tax payments** on the contributions until after retirement. A "housekeeping bill" clarified survival benefits involving simultaneous death of a TRS member and beneficiary, suspended disability annuity payments if retiree refuses a medical exam, provided annuity death benefits at least equal to the member's accumulated contributions at time of death, and removed the exception to TRS membership provision for employees **at least 60 years old,** to conform to the federal age discrimination law.

1989 Normal age retirement without reduction was extended to **age 55 with 30 years** of service and an improved early age retirement schedule beginning September 1, 1989, was approved by the 71st Regular Session of the legislature. Annuities of those taking early age retirement in May through August 1989 could be adjusted to the new provisions beginning September 1, 1989. A **pop-up feature** for options 1 and 2,

allowing the retiree to begin receiving a standard annuity if the designated beneficiary predeceases the retiree, became effective September 1, 1989. May, June, July and August 1989 retirees could choose either the old or new options 1 and 2 provisions.

Years required for members to be **vested** for service retirement benefits upon reaching retirement age, even though they leave covered employment, if they do not withdraw their deposits, was reduced from 10 years to five years. **Benefit increases** not to exceed $100 per month were granted based on date of retirement or death of a member, as follows: 16% before September 1, 1975; 12% after August 31, 1975, but before September 1, 1980; 8% after August 31, 1980, but before September 1, 1983; 4% after August 31, 1983, but before September 1, 1986. Increases did not apply to the survivor benefits payments or to disability retirement benefits for persons with fewer than 10 years of creditable service.

A **$10,000 lump sum payment** to the beneficiary of a retiree who dies after September 1, 1989, was added as an optional death benefit.

The legislature reduced the **state contribution rate** to 7.65% from September 1, 1989, until September 1, 1993. Provision was made for delay of state contributions for June, July and August 1991 until September 1991 and for payment to TRS of 8% of the amount delayed or the rate of yield on the deferred amount that TRS would have earned had the payments not been delayed, whichever is greater.

1991 The 72nd Legislature approved **benefit increases of 1% for each year of retirement** for annuitants retiring before May 1989. Legislation called for the increases to be effective August 31, 1991; however, because the bill did not pass by a 2/3 majority, its implementation was delayed

until November. The TRS board of trustees approved a retroactive payment of annuitant increases for August, September, and October to be paid in December with the November payment.

The **state contribution rate was set at 7.31%** until September 1993, a reduction from 7.65%. The state contribution to the Optional Retirement Program (ORP) for participating higher education employees was reduced to 7.31% from 8.5%.

The **minimum retirement benefit was increased to $150 per month** from $75 per month for members retiring at 65 or older after November 1991.

Military service credit purchase was extended to a member who voluntarily enlisted for service. Eligibility to purchase military service credit was changed to five years of TRS service from 10 years.

Installment payments to purchase withdrawn, military, unreported, waiver, developmental leave, out-of-state, and reemployed veteran's service were approved to begin September 1, 1992. Monthly payments can be spread over one to five years.

Effective 2001, **purchase of one year's service credit for 50 days or more of accumulated state sick leave** was approved. Five state sick leave days per year may be accumulated.

Annuitants are required effective January 1, 1992, to use **electronic fund transfer (EFT)** for receipt of annuity payments unless EFT is impossible or impractical.

Beginning September 1, 1992, a member may apply for **disability retirement** regardless of age with no presumption of disability after age 60 and can select an unreduced standard annuity or one of four options similar to

those of service retirees. **Death benefit options for disability retirees** will be the same as those of service retirees.

Provision for **employment after retirement** without loss of annuity was changed from five consecutive months to six months during the school year.

Legislators placed a proposed constitutional amendment, Proposition 7, on the November 1991 ballot. The proposition, removing provisions restricting statewide retirement systems' investments to securities, was defeated by voters.

1993 The 73rd Legislature approved **benefit increases equal to a 25% inflation "catch-up."** A catch-up benefit is an increase given to retirees whose original annuity purchasing power lags behind the Consumer Price Index. Increases were effective January 1994 for annuitants who retired before September 1, 1991. A minimum 5% increase was granted and increases ranged from five to 15%, depending on the date of retirement or, for beneficiaries, death of the retiree.

Monthly survivor benefit payments were increased from $100 to $150 and from $200 to $250.

Change of beneficiary and retirement plan selection before first annuity payment is due or paid was allowed.

TRS service required for **purchase of out-of-state service** was reduced from 10 to five years. Ten years TRS service is required for TRS-Care eligibility. **Withdrawn service** may be reinstated immediately when TRS service is resumed.

Payment of death benefits to beneficiaries who remarried before 1980 was restored with no provision for retroactive payments.

Disability retirees may be employed no more than 90 days during a school year on a one-half time basis or as a substitute.

Special **military service purchase** was allowed if a member is not eligible for military retirement benefits, is a recipient of special separation benefits, and becomes a TRS classroom teacher within four years of leaving military service. The member would pay actuarial cost and membership fees and could purchase the number of years of active military service. The member could not use purchased service for benefits until five years of TRS service credit has been earned.

A **TRS or ERS member** with at least three years of service credit in either system may **transfer credit** from the other system upon retirement and retire under rules of the transferred-to system. A person with three years in either TRS or ERS can reinstate an account withdrawn before September 1, 1993, from the other system and use the reinstated service for retirement purposes in either system in which the person has at least three years of service. The years of reinstated TRS service may be used to qualify for purchase of eligible out-of-state, military, and other TRS special service. Similarly, the reinstated and transferred service can be used in calculation of the death benefit. Governing boards of some state agencies may **transfer employees' membership from TRS to ERS** effective September 1, 1994. Texas Education Agency transfer was allowed September 1, 1993.

Direct rollover of eligible TRS payments to an eligible retirement plan was allowed in compliance with federal tax law.

TRS was required to conduct **a study of statewide active and retiree health insurance and collect a $10 fee** from active public school employees in September 1993 and September 1994. A portion of this $10 annual fee will fund the study, with the remaining amount going to active insurance plan reserves

if a plan is adopted or be refunded to members. School districts must also certify to TRS that a level of group health insurance comparable to that provided state employees is provided.

Contribution rates in the Appropriations Act remained at 7.31% for the state and 6.4% for members with **state contributions for June-August 1995** delayed until September 1995.

Ethics requirements were broadened for TRS board and employees, and **investment and other reporting requirements** were added.

TRS was required to **submit its operating budget to the Legislative Budget Board** for review and comment and to undergo **Sunset Review** in 1995. **The title of TRS Executive Secretary** was changed to Executive Director.

TRS was permitted to make up to **two mailings per year on behalf of a nonprofit association** which shall pay the cost of mailings.

1995 The 74th Legislature approved **the largest benefit increase in the system's history totaling $1.6 billion.** Increases, effective September 30, 1995, addressed two purposes: To compensate for inequities in levels of payments caused by lower salaries and differing benefit calculations at the time of retirement; and to pass along the second CPI "catch-up" increase. Increases were effective for retirements or deaths occurring before September 1, 1993, with an annuitant being paid the greater of two options: Computation of the annuity under law in effect on 1/1/95, and inclusion of all benefit increases since retirement or death including the 1995 percentage increase ranging from 2-17% based upon year of retirement or death; or recomputation of the annuity using the minimum annual salary

($18,500) for a classroom teacher or full-time librarian if the actual average salary was less than the current minimum, and reduction, if applicable for early retirement and annuity option selected. Increases were funded from TRS investment income. No additional state appropriation was required.

Eligibility for unreduced retirement with 30 years of service was lowered from age 55 to age 50.

"Pop-up" feature was extended to retirees who retired before pop-up provision became law.

Monthly disability payment was increased from $50 to $150 for a member having fewer than 10 years of service credit. Applied prospectively to persons already receiving a $50 disability payment and applied to disability retirements having 10 or more years of service.

Lump sum benefit death payment for active members was increased from the lesser of two times the annual salary or $60,000 to the lesser of two times the annual salary or $80,000.

A new service/disability retirement option was established whereby the retiree may select a reduced annuity with the designated beneficiary to receive 75% of the reduced annuity upon the retiree's death.

A retiree receiving a standard service annuity and who marries after retirement was allowed during a one year period from the date of marriage or until August 31, 1996, whichever was later, to **replace the annuity by selecting an Option 1, 2, or the option described above** and designate the person's spouse as beneficiary. The effective date of such a beneficiary change is deferred until two years after the change is made.

The **limit for employment in a Texas**

public school after service retirement was changed from 120 substitute service days to an unlimited number of days at no more than the daily substitute pay rate established by the employer.

TRS will make an annuity **payment for the month in which the annuitant dies.** A continuation of an optional annuity or the payment of a death survivor benefit begins with payment for the month following the month in which the annuitant's death occurred.

The effective date of death of a member who dies before retirement was, for the purpose of paying a death or survivor benefit annuity, designated as the last day of the month preceding the month in which the member died. The first payment of the annuity becomes due at the end of the month in which the member's death occurred.

TRS-Care was expanded to include public school employees of districts which elect to participate beginning with the 1996-97 school year.

The **$10 insurance fee** enacted in 1993 was extended for public school employees through 1997.

TRS will not **correct a member's service credits** if such credits have been reflected on the member's annual statement for five or more years except where fraud or three or more years of credit are involved.

Special service will be evaluated for credit on a September 1 - August 31 school year. Special service may be purchased with a direct rollover of an eligible rollover distribution from another qualified plan. The number of **years of actual service** in Texas public schools required **to qualify for TRS-Care coverage** was reduced from 10 to five for a member who purchases out-of-state credit to equal a total of 10 years.

A member's **service or disability retire-**

ment date was designated as any month within a 3-month period (3-month window) with the month the application is filed being the third month.

Employers were required to annually certify to TRS **the beginning date of an oral or written work agreement** that begins after June 30 and continues after August 31 of the same calendar year. Employees so certified will have a school year for TRS purposes that begins with that date.

For the purpose of establishing annual compensation, **excluded from salary and wages** are payments received in the 1995-1996 or a subsequent school year for **teaching a driver education and traffic safety course.**

The purpose of TRS was defined: To invest and protect TRS funds and to deliver benefits provided by statute, not to advocate or influence legislative action or inaction or to advocate higher benefits.

The **state contribution rate** was reduced from 7.31% to 6% effective September 1, 1995, until August 31, 1997.

TRS's operating expenses were placed under the state appropriation process and number of employees limited to 384 for the 1996-97 biennium.

The **annual $10 membership fee** was repealed.

The **TRS Board of Trustees** was restructured with the governor appointing five members, two of which are chosen from nominees submitted by the State Board of Education. Appointments must be persons with demonstrated financial expertise, preferably in investment of pension funds. The terms of existing two **direct State Board of Education appointments** to the TRS Board of Trustees expired August 31, 1995. The governor is to appoint the **presid-**

ing officer of the board who serves in that capacity at the pleasure of the governor. A board member training program was established.

TRS is to be reviewed by the **Sunset Advisory Commission in 2007**.

TRS was authorized to use **electronic storage for all records**.

TRS was required to acquire and maintain **records identifying members and types of positions they have held** as members, the length of service in each type of position, and whether service in each type of position is or was as a full-time employee.

Changes to the **ERS/TRS Joint Service Law** were approved. A member is prohibited from applying for an occupational disability under ERS to include service transferred from TRS unless the member was contributing at the time the disabling condition occurred. A beneficiary of a deceased member with TRS and ERS service is eligible to combine the service under one system only if the person was the designated beneficiary under both retirement systems. A beneficiary is eligible to receive a benefit based on transferred service from either TRS or ERS without precluding the person from receiving benefits as a beneficiary of an account not related to the transferred service. The TRS service of a person whose membership was transferred to ERS remains with TRS, unless withdrawn, if the person terminates ERS-covered employment before death or retirement. Persons receiving an annuity because of a retirement or death that occurred after June 18, 1993, but before August 31, 1993, may reinstate, purchase, or transfer service credit between TRS and ERS.

Delay of the state's contribution for the last quarter of FY 95 was repealed.

1997 **Annuities were increased** for most retirees and beneficiaries. This was the third Consumer Price Index increase in recent years designed to help retirees and their beneficiaries catch up on what they had lost to inflation since retirement. Annuity increases ranged from two to 14 percent based on the year of retirement. The increases affected those who retired prior to September 1, 1996.

Passage of the Rule of 80 enabled unreduced retirement whenever a member's age combined with his/her years of service equalled or exceeded 80. For example, a 52-year-old member with 28 years of service became eligible (52+28=80). Although effective September 1, 1997, the legislation included a retroactive feature which allowed qualifying retirees who took early retirement with a reduced annuity during May through August of 1997 to have their benefits recalculated in September.

A Deferred Retirement Option Plan (DROP) was established creating a significant new preretirement benefit provision for active employees eligible to retire with unreduced benefits and with at least 25 years of creditable service. DROP allows participants to accumulate funds in a special account which can be disbursed to them at retirement in addition to their regular annuity payments.

An excess benefits arrangement was created to pay certain TRS retirees an amount equal to the annuity reduction applied due to the limit imposed by Section 415 of the Internal Revenue Code.

School district participation in TRS-Care was simplified when districts were authorized to participate in TRS-Care even if they also offered an alternative plan. The required district contribution was lowered from

100 percent to 75 percent of employee premiums. TRS-Care became self-insured and is no longer limited to contract with insurance carriers. As a result, contracts with HMOs, PPOs, and other vendors are now permitted.

Survivor benefits for surviving spouses, children and dependent parents were increased by $50 per month, from $150 to $200 and from $250 to $300.

Drivers education salary credit was once again allowed. Salary earned for teaching drivers education and/or traffic safety courses outside of regular classroom hours was limited to $5,000.

Payroll deduction through employers became a new option for active members wishing to purchase special service credit.

New legislation **added the ability to change beneficiary designations**. Designations for death benefits only are now revoked if (1) the beneficiary is an ex-spouse, (2) the designation was made prior to the divorce, and (3) a certified copy of the divorce decree is filed with TRS before payment of any part of the death benefits begin. (This provision does not apply to retirement options.) Disability retirees receiving a standard annuity, and who have at least 10 years of service, may now select Option 1, 2, or 5 during their first year of a marriage that occurred after retirement. In doing so, they may name their new spouse as beneficiary. There is a two-year waiting period during which if either spouse dies the selection is void. Payments for the reduced amount will begin after this two-year period. Retirees now have a one-time opportunity to change their beneficiary for an Option 1, 2, or 5 retirement benefit. (Options 3 and 4 may be changed at any time.) If the beneficiary is a spouse or ex-spouse, either a court must have ordered the change, or the

beneficiary must consent to the change in writing. Benefit option payments to the new beneficiary are limited to the *remaining life expectancy of the original beneficiary* or the new beneficiary's actual life, whichever is shorter.

A change in the revocation of beneficiary designation upon divorce was adopted allowing service or disability retirees who had selected Option 1, 2 or 5 to revoke their designation of the beneficiary named to receive the annuity after the retiree's death. This is permitted when the revocation is ordered by a court in a divorce proceeding involving the retiree and the beneficiary. When TRS receives the divorce decree and a completed copy of form TRS 572, "Revocation of Beneficiary Designation," the retiree will then be entitled to receive payments of a standard annuity, reduced for early retirement if applicable.

Performance pay was included in the definition of salary for the purpose of calculating a member's retirement benefit. This will occur when such pay is awarded to an employee by a school district as part of a total compensation plan approved by that school district's board of trustees.

Proportionate retirement was expanded to local retirement systems in Texas which cover municipal employees. However, this law did not extend to combining Texas County and District Retirement System or Texas Municipal Retirement System service with the newly included municipal employees. The governing bodies of the local retirement system and the municipality must both approve participation in the proportionate retirement program.

A post-retirement salary cap will now apply to TRS and ERS retirees who are reemployed by the state or contract with the state in a position performing services

substantially similar to those which they performed for the same agency during the last 12 months before retirement. For example, a retiree having earned a majority of service in TRS from a position in a state agency is limited in his or her post-retirement salary with that agency to the lesser of the following: (1) the rate of compensation received from the state during the last 12 months of service before retirement; or (2) $60,000. This limitation does not apply to the retiree's first six months of reemployment after retirement. However, if a retiree is reemployed for more than six months after retirement, the limitation applies to the entire period of reemployment.

Notes

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